

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF MONROE COUNTY)
WATER DISTRICT FOR AN ADJUSTMENT)
OF RATES PURSUANT TO THE ALTERNA-) CASE NO. 8670
TIVE PROCEDURE FOR SMALL UTILITIES)

O R D E R

On October 1, 1982, Monroe County Water District ("Monroe County") filed its application to adjust its rates and charges for water service pursuant to 807 KAR 5:026, Alternative Rate Adjustment Procedure for Small Utilities. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method in order to minimize the necessity for formal hearings, to reduce filing requirements, and to shorten the time between the application and the Commission's final Order. In addition, this procedure minimizes rate case expenses to the utility and therefore results in lower rates to the ratepayers.

Monroe County requested rates and charges to produce an annual increase in revenue of \$36,718. In this Order the Commission has allowed rates and charges to produce an increase of \$25,492.

In its application, Monroe County requested that the Commission depart from its policy of disallowing depreciation expense on contributed property for rate-making purposes. In order

to afford due process to all parties concerned, the Commission in its Order entered November 5, 1982, gave Monroe County the option of requesting a public hearing to allow all parties the opportunity to cross-examine Monroe County on this issue or withdrawing its request for rate-making treatment outside the Commission's established policy. In response to the Commission's Order, Monroe County, in a letter filed November 12, 1982, withdrew its request for depreciation expense on contributed property without prejudice to its right to raise this issue in future rate proceedings.

There were no intervenors in this matter, and no protests were entered. All information requested by the Commission has been submitted.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1981, has been accepted as the test period.

REVENUES AND EXPENSES

Monroe County reported a net loss for the test period of \$19,174. In order to reflect current operating conditions, Monroe County proposed numerous adjustments to revenues and expenses resulting in an adjusted net loss of \$22,653, comprised of a net operating loss of \$6,691 and fixed charges of \$16,825, net of interest income of \$913.

The Commission finds Monroe County's proposed adjustments generally proper and has accepted them for rate-making purposes with the following exceptions:

Meter Installation Cost

In response to the Commission's request for information, Monroe County stated that during the test period \$4,038 had been charged for the installation of 22 new meters.

These are capital expenditures and will benefit future periods. Thus, the Commission has eliminated this amount from test period expenses and has increased net operating income by \$4,038.

Outside Services Employed

Monroe County proposed an adjustment to outside services employed of \$1,966 to reflect the 3-year amortization of prior rate case expense and the expense for this case. However, in response to the Commission's request for information, Monroe County reduced its pro forma adjustment for outside services employed by \$538. The Commission concurs with this reduction, thus increasing net operating income by \$538.

Commissioners' Fees

The Commission has increased Monroe County's pro forma adjustment for Commissioners fees by \$800 to reflect the fees approved by Monroe County's Judge Executive, Douglas Carter, in his letter of December 7, 1982, thus reducing net operating income by \$800.

Therefore, the Commission finds that Monroe County's adjusted test period operations are as follows:

	<u>Actual</u>	<u>Adjustment</u>	<u>Adjusted</u>
Operating Revenues	\$ 82,298	\$ (2,023)	\$ 80,275
Operating Expenses	<u>87,310</u>	<u>(4,120)</u>	<u>83,190</u>
Net Operating Income (Loss)	<u>\$ (5,012)</u>	<u>\$ 2,097</u>	<u>\$ (2,915)</u>

REVENUE REQUIREMENT

The Commission is of the opinion that Monroe County's adjusted net operating loss for the test period is unreasonable and that additional revenue is required for adequate financial stability. Monroe County requested that the Commission approve a debt service coverage of 1.5X in determining its revenue requirement. The Commission concurs with Monroe County that the debt service coverage method is appropriate; however, the Commission is of the opinion that a debt service coverage of 1.2X is fair, just and reasonable and will provide adequate net income for Monroe County to meet the requirements of its lenders as evidenced by its bond resolution.

The Commission has determined that Monroe County's average debt service on long-term debt for the next 5-year period is \$16,375. Moreover, pro forma fixed charges on short-term debt are \$3,200 for a total debt service of \$19,575. Thus, using a debt service coverage of 1.2X, Monroe County's required net operating income is \$23,490. Thus, the Commission has determined that additional revenue of \$25,492 net of interest income of \$913 is necessary to provide the 1.2X debt service coverage.

ACCOUNTING CHANGES

In its review of the case, the Commission noted that Monroe County had accounted for tap-fees and associated expenses on the income statement. This accounting treatment is not in compliance with the Uniform System of Accounts for Class C Water

Utilities adopted by the Commission. Since Monroe County is a relatively new system, records necessary to make the changes necessary to comply with the Uniform System of Accounts should still be readily available. Monroe County should review its records and make the necessary entries on its books of record to correct this improper accounting treatment for the years 1975 to date. Regarding correction of Monroe County's annual reports currently on file with the Commission, the Commission is of the opinion that specific entries would not be necessary. A composite journal entry properly footnoted on the balance sheet of the 1982 Annual Report should be filed with the Commission.

LEAK DETECTION PROGRAM

During the test period, Monroe County experienced an unaccounted-for level of water of 38 percent. However, being aware of the Commission's policy regarding excessive unaccounted-for water, Monroe County adjusted its operating expenses downward for the amount of water unaccounted for in excess of 15 percent. In addition, Monroe County requested and the Commission approved the expense for a water detection program.

As a condition to the approval of this leak detection program, the Commission instructs Monroe County to maintain adequate operational and financial records wherein the progress of this program can be readily identified. Accordingly, within 90 days of the date of this Order, Monroe County should file with the Commission a written operation and management plan for the proposed leak detection program. The plan should detail the procedures, equipment, and personnel to be utilized and the

specific areas of the system to be inspected. The plan should list the work to be accomplished and should contain a project calendar of events. Monroe County should also file a copy of a current map of the water distribution system.

Monroe County should maintain a ledger sheet entitled "Leak Detection Program" on which all expense items directly attributable to the leak detection and repair effort should be listed. Monroe County should file with the Commission a written summary of the progress of the leak detection program within 30 days of the end of each calendar quarter of 1983, including a copy of the ledger sheet entitled "Leak Detection Program," a listing of the amount of water purchased and the amount of water sold for each of the 3 months of the quarter, and any additional relevant information. Each report and correspondence from Monroe County concerning this matter should contain a reference to case number 8670 on its face.

If Monroe County should need assistance in developing and formulating the operational and management plan for the leak detection program, it should contact the Commission.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates and charges proposed by Monroe County will provide revenue in excess of that found to be fair, just and reasonable and should be denied upon application of KRS 278.030.

2. The rates and charges in Appendix A are fair, just and reasonable for Monroe County in that they will produce annual operating revenue from water service of \$103,812 and based on test period operating conditions, gross revenue including interest income of \$106,680, which is sufficient to meet Monroe County's operating expenses found reasonable herein, service its debt and provide a reasonable surplus.

3. Monroe County should adhere to the instructions in the leak detection program segment of this Order.

IT IS THEREFORE ORDERED that the rates and charges proposed by Monroe County be and they are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates and charges in Appendix A are the fair, just and reasonable rates and charges for Monroe County to charge for water service and they hereby are approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Monroe County shall file with the Commission with its 1982 Annual Report the appropriate journal entries to properly account for tap-fees and installation charges erroneously reflected on income statements for prior years.

IT IS FURTHER ORDERED that Monroe County shall file with the Commission a written operation and maintenance plan for the proposed leak detection program as specified in this Order within 90 days of the date of this Order.

IT IS FURTHER ORDERED that Monroe County shall file a current map of the water distribution system.

IT IS FURTHER ORDERED that Monroe County shall file with the Commission a written summary of the progress of the leak detection program within 30 days of the end of each calendar quarter for 1983 along with the documents as specified in this Order.

IT IS FURTHER ORDERED that Monroe County shall file with the Commission its tariff sheets setting forth the rates and charges herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 1st day of February, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8670 DATED February
1, 1983.

The following rates are prescribed for the customers served by Monroe County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

5/8-inch X 3/4-inch Meter

<u>Gallage Block</u>	<u>Rate</u>
First 2,000 gallons	\$10.60 minimum
Next 3,000 gallons	4.00 per 1,000 gallons
Next 5,000 gallons	3.35 per 1,000 gallons
Over 10,000 gallons	2.65 per 1,000 gallons

1-inch Meter

<u>Gallage Block</u>	<u>Rate</u>
First 5,000 gallons	\$22.60 minimum
Next 3,000 gallons	4.00 per 1,000 gallons
Next 5,000 gallons	3.35 per 1,000 gallons
Over 13,000 gallons	2.65 per 1,000 gallons

2-inch Meter

<u>Gallage Block</u>	<u>Rate</u>
First 16,000 gallons	\$55.00 minimum
Next 3,000 gallons	4.00 per 1,000 gallons
Next 5,000 gallons	3.35 per 1,000 gallons
Over 24,000 gallons	2.65 per 1,000 gallons